

**REPORT OF THE AUDIT OF THE
CLARK COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
January 1, 2007 Through April 27, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
CLARK COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
January 1, 2007 Through April 27, 2007**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Clark County Sheriff for the period January 1, 2007 through April 27, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,249,525 for the districts for 2006 taxes, retaining commissions of \$68,313 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,077,946 to the districts for 2006 taxes. Taxes of \$88,714 are due to the districts from the Sheriff.

Report Comments:

- | | |
|--------|---|
| 2006-1 | The Sheriff Should Have A Written Agreement To Protect Deposits And Sufficient Collateral To Protect Deposits |
| 2006-2 | The Sheriff Should Properly Authorize Waivers And Reductions In Tax Penalties And Fees |
| 2006-3 | The Sheriff Should Seek Additional Training To Improve Financial Accountability And Recordkeeping |
| 2006-4 | The Sheriff Should Reconcile Tax Reports To Bank Records Monthly |

Deposits:

The Sheriff's deposits as of March 30, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$180,467

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Henry Branham, Clark County Judge/Executive
Honorable Berl Perdue, Jr., Clark County Sheriff
Members of the Clark County Fiscal Court

Independent Auditor's Report

We have audited the Clark County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through April 27, 2007. This tax settlement is the responsibility of the Clark County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Clark County Sheriff's taxes charged, credited, and paid for the period January 1, 2007 through April 27, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2008, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Henry Branham, Clark County Judge/Executive
Honorable Berl Perdue, Jr., Clark County Sheriff
Members of the Clark County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2006-1 The Sheriff Should Have A Written Agreement To Protect Deposits And Sufficient Collateral To Protect Deposits
- 2006-2 The Sheriff Should Properly Authorize Waivers And Reductions In Tax Penalties And Fees
- 2006-3 The Sheriff Should Seek Additional Training To Improve Financial Accountability And Recordkeeping
- 2006-4 The Sheriff Should Reconcile Tax Reports To Bank Records Monthly

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

January 18, 2008

CLARK COUNTY
BERL PERDUE, JR., SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period January 1, 2007 Through April 27, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Incoming Sheriff's Official Receipt	\$ 230,797	\$ 287,636	\$ 1,109,393	\$ 441,074
Additional Billings	62	76	314	100
Bank Franchises	24,362			
Penalties	7,803	9,069	39,441	12,738
Franchise Taxes	70,814	89,676	312,886	
Gross Chargeable to Sheriff	333,838	386,457	1,462,034	453,912
<u>Credits</u>				
Exonerations	29,860	359	120,871	469
Discounts	469	1,374	1,968	2,971
Delinquents:				
Real Estate	24,432	29,929	123,076	39,091
Tangible Personal Property	773	1,018	3,121	4,081
Bank Shares	2,854			
Total Credits	58,388	32,680	249,036	46,612
Taxes Collected	275,450	353,777	1,212,998	407,300
Less: Commissions *	11,707	15,036	24,260	17,310
Taxes Due	263,743	338,741	1,188,738	389,990
Taxes Paid	249,088	328,449	1,113,651	386,758
Refunds (Current and Prior Year)	1,642	2,008	8,270	2,632
		**		
Due Districts As Of Completion of Audit	\$ 13,013	\$ 8,284	\$ 66,817	\$ 600
* Commissions:				
4.25% on \$ 1,036,527				
2% on \$ 1,212,998				
** Special Taxing Districts:				
Library District	\$ 3,938			
Health District	2,874			
Extension District	1,472			
Due Districts	\$ 8,284			

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT

April 27, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT
April 27, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 27, 2007, the Sheriff's deposits were adequately covered by FDIC insurance or pledged securities but no properly executed collateral security agreement, and on March 30, 2007, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$180,467

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 1, 2007 through April 27, 2007.

Note 4. Interest Income

The Clark County Sheriff earned \$12,060 as interest income on 2006 taxes. As of April 27, 2007, the Sheriff owed \$1,605 in interest to the school district and \$1,447 in interest to the fee account.

Note 5. Sheriff's 10% Add-On Fee

The Clark County Sheriff collected \$61,094 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Clark County Sheriff collected \$243 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Henry Branham, Clark County Judge/Executive
Honorable Berl Perdue, Jr., Clark County Sheriff
Members of the Clark County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Clark County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through April 27, 2007, and have issued our report thereon dated January 18, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clark County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Clark County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clark County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies 2006-2, 2006-3, and 2006-4, described in the accompanying comments and recommendations, to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clark County Sheriff's Settlement – 2006 Taxes as of April 27, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters, 2006-1, that is required to be reported under Government Auditing Standards, and which is described in the accompanying comments and recommendations.

The Clark County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Clark County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 18, 2008

COMMENTS AND RECOMMENDATIONS

CLARK COUNTY
BERL PERDUE, JR., SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2007 Through April 27, 2007

STATE LAWS AND REGULATIONS:

2006-1 The Sheriff Should Have A Written Agreement To Protect Deposits And Sufficient Collateral To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. On March 30, 2007, the Sheriff had bank deposits of \$880,467; FDIC insurance of \$100,000; and collateral pledged or provided of \$600,000, therefore leaving \$180,467 of bank deposits uninsured and unsecured. Also there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response: Additional information will be provided and Sheriff will make sure collateral is provided to secure all funds.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:

2006-2 The Sheriff Should Properly Authorize Waivers And Reductions In Tax Penalties And Fees

During our audit we found penalty and add-on fees on the tax bill of a Sheriff's office employee had been waived. The tax bill was paid on April 12, 2007 and should have included 10% penalty and an additional 10% add-on fee; however, the penalty and fee were waived and the tax bill was paid at face value. No documentation could be provided to support this waiver of penalty and fees. KRS 131.175 and KRS 131.010(9) provide the Sheriff the authority and reasonable causes for waivers or reduction in tax penalties and fees and a form has been developed for the Sheriff to use to document the waiver and reduction. We recommend the Sheriff review KRS 131.175 and KRS 131.010(9) to ensure waivers of tax penalties and fees are in compliance with these laws and the Sheriff authorize and properly document, and maintain the documentation, for all waivers or reductions in tax penalties and fees.

Sheriff's Response: New tax program incorporates this waiver form to be signed by Sheriff and taxpayer.

CLARK COUNTY
BERL PERDUE, JR., SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 1, 2007 Through April 27, 2007
(Continued)

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES AND MATERIAL WEAKNESSES:
(Continued)

2006-3 The Sheriff Should Seek Additional Training To Improve Financial Accountability And Recordkeeping

As a result of procedures conducted during the audit, auditors determined that certain elements of financial accountability should be improved. Our audit procedures include re-computing all charges, credits, and payments reflected on the Sheriff's Tax Settlement. The Sheriff is responsible for providing supporting documentation for these amounts. During the audit, the Sheriff's bookkeeper exhibited numerous difficulties providing supporting documentation for some of the amounts included on the settlement. The difficulties involve various reports produced by the software system and basic filing and recordkeeping. The Sheriff has since changed the tax software system, therefore we recommend the Sheriff and his staff obtain training in the proper use of the software system employed for tax collections. Also we recommend the Sheriff and his staff improve their methods of filing, organization, and recordkeeping.

Sheriff's Response: New software for tax collection has been installed. Sheriff and staff will continue updating and training for proper use.

2006-4 The Sheriff Should Reconcile Tax Reports To Bank Records Monthly

Based on our audit of the Sheriff's Tax Settlement there is \$88,714 due to the various taxing districts. This large amount due to the districts indicates the Sheriff was not reconciling his tax reports to the bank records monthly. The Sheriff should reconcile the monthly tax reports to the bank records, to determine if total monthly tax receipts agree to total monthly disbursements. This would help ensure that taxing districts receive their monthly tax distribution in a timely manner. We recommend the Sheriff reconcile his monthly tax reports to bank records monthly to ensure the correct amounts are paid to the taxing districts in a timely manner.

Sheriff's Response: New software installed and bank reconciliation along with tax distribution reconciliation done monthly and in a timely manner.

